CHICAGO TITLE®

# UNDERSTANDING CALIFORNIA **PROPERTY TAXES IN ESCROW**

Perhaps one of the most confusing aspects in dealing with real estate is the taxes. Taxes can be addressed in several ways in your escrow. If you are obtaining a new loan, the lender may require tax impounds and tax service. If you are involved in a purchase, the seller may require tax prorations. There may be taxes to be paid based on delinquent or current tax bills. Your escrow instructions may contain a disclosure and release regarding future supplemental taxes. Below is a review of each of these aspects of taxes.

## TAXES TO BE PAID:

The fiscal tax year commences on July 1st of each year, BUT liens for that tax year begin on the preceding March 1st. This means that every property in the state subject to taxes automatically has a tax lien on it commencing March 1st of each year for the coming fiscal year. The end of each fiscal year is the following June 30th. Taxes are payable in two installments (although you have the option to pay them in full when you pay the first installment), with first installment due on November 1st and delinquent after December 10th; the second installment is due and payable on February 1st of each year and delinquent after April 10th of each year. NOTE: If the tenth falls on a Saturday or Sunday, the delinquent date is extended until 5:00 p.m. of the next business day.

## TAX IMPOUNDS:

The lender may collect taxes monthly in the payment. The amount is equivalent to 1112th of the projected tax payment due annually. At closing, the lender calculates the number of payments that they need to be in receipt of at the time the next tax installment is due. Then, at closing, they collect the necessary monthly taxes to ensure that when the taxes become due they are in receipt of a minimum of six months of tax payments. Each lender differs slightly on their calculation; therefore, it is important to check with your lender regarding the formula they use.

## TAX SERVICE:

Since, in the majority of cases, the tax bill is mailed to the taxpayer and not their lender, the lender will secure the help of a tax service company. For a fee, the tax service company obtains copies of tax bills in which they hold a contract and mails the bill in time for payment, prior to delinquency, to the appropriate lender with reference to their individual loan by loan number.

## TAX PRORATIONS:

At closing, if required, the escrow agent will determine what portion of the next tax installment is the seller's responsibility. They will then charge the seller and credit the buyer with said amount. When the next installment is due, the buyer will pay the total amount since the buyer was reimbursed the seller's portion at closing. Likewise, if the seller has prepaid his taxes, then the portion that he has prepaid will be charged to the buyer and credited to the seller.

## SUPPLEMENTAL TAXES:

Due to "Proposition 13" after a property has been assessed (as of March 1st of each year) and a property transfers, the law provides for an increase of the tax basis of the property based upon the sales price. The difference between that year's tax base and the increase caused by the sale, if any, is charged to the buyer. For instance, if a property is valued at $275,000 on March 1st of the taxable year and is sold during the year for $327,000, the increase in the tax bill, as a result of the sale and subsequent reevaluation, will be separately billed to the new buyer for that portion of the fiscal tax year that they owned the property. If the property transfers more than once during the tax year, there may be multiple supplemental tax bills to each new owner if the sales represent increases in value.